STATE OF IOWA
UTILITIES DIVISION
BEFORE THE IOWA UTILITIES BOARD

IN RE: **Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities**	**DOCKET NO. RPU-2016-0003**

RESPONSE TO SECOND BOARD ORDER REQUESTING ADDITIONAL INFORMATION

Request 1: *Weather Normalization.* Liberty is to recalculate weather normalized sales based on test year (calendar year 2015) actual sales and final test year (calendar year 2015) HDDs. The model inputs shall include actual monthly sales and customer numbers for January through December 2015, actual HDDs from December 2014 through December 2015, and the 30-year normal HDDS. The allowable base load periods when calculating weather normalized sales for a PGA year or a calendar year shall include the three-month periods beginning with May, June, and July. Liberty should (a) provide the results of the recalculation and the spreadsheet used to develop the results and (b) update all filed exhibits using test year (calendar year 2015) weather normalized sales. Liberty should (a) provide the results of the recalculation and the spreadsheet used to develop the results and (b) update all filed exhibits using test year (calendar 2015) weather normalized sales.

Response:

(a) Please see JMS Ex-3 Sch-4 Weather Normalization Adjustment – Updated.xls for the recalculation of the weather normalization, and RPU-2016-0003 Weather Normalization 2015.xls for the spreadsheet used to recalculate the weather normalized sales based on 2015 sales and HDDs.

(b) Please see Schwartz Direct Exhibit 1 – 4 – Updated.xls.

Request 2: Explain why Liberty weather normalized the commercial and industrial interruptible sales volumes in JMS Exhibit 3, Schedule 4, when the established methodology for weather normalization of natural gas sales volumes (used in Liberty's PGA filings each year) normalized only residential and commercial firm sales volumes.

Response:

The Company believed that the weather normalization waiver request and grant was for the use of the most recent Board approved normalized volumes from PGA-2015-0032 which includes volumes and sales data from June 2014 through May 2015. As such, when the Company calculated the weather normalization adjustment for the rate case, the Company made an adjustment for the difference between the volumes included in the PGA filing and the 2015 test year actual volumes for all customer/sales categories. Because the PGA filing includes volumes for the Commercial and Industrial Interruptible categories, when the Company calculated it's adjustment it included the difference between the test year volumes and the volumes included in the PGA period in the adjustment. However, the PGA filing does not actually "normalize" the volumes for the Commercial and Industrial Interruptible categories. The Company's updated weather normalization adjustment is based on weather normalized volumes for the Residential and Commercial categories from January through December 2015. The Company is not calculating an adjustment for Commercial and Industrial Interruptible volumes.

Request 3: Provide a document reconciling the volumes and customer counts filed in Liberty's 2015 Form IG-1 (filed in 2016) to the updated volumes and customer counts used in the updated weather normalization exhibits, JMS Exhibit 3, Schedule 4 TSL Exhibit 6, page 1, and TSL Exhibit 7, page 2 of 4.

Response:

Please see Volumes & Customers Reconciliation.xls.

Request 4: Provide the information listed below for each customer in the current Commercial Firm (320) and Commercial Interruptible (330) rate groups:

a. Customer name or account number;
b. The current tariff schedule applicable to the customer;
c. The proposed tariff schedule applicable to the customer;
d. Total 2015 actual therms;
e. Total margin based on current rates and total therms;
f. Total customer charges based on current rates;
g. Total margin based on proposed final rates and total terms;
h. Total customer charges based on proposed final rates;
i. Total difference between total margin based on current (item e) and proposed rates (item g);
j. The difference between total customer charges based on current (item f) and proposed rates (item h);
k. Total margin and customer charges based on current rates (sum of items e and f);
l. Total margin and customer charges based on proposed rates (sum of items g and h);
m. The percentage change between total margin based on current rates (item k) and proposed rates (item l).
n. Identify which customers are master metered.

<u>Response</u>:

Please refer to 'Response to Second Order No. 4 Attachment (CONFIDENTIAL)'. Regarding Item n, master-metered customers were not identified in the file.

<u>Request 5</u>: Explain why in Exhibit TSL-7, page 2 of 4, master metered customers are not included individually in the customer counts for the residential and commercial classes.

<u>Response</u>:

Meter-metered customers are not included individually in the customer counts for the residential and commercial class because master-metered customers receive only a single customer charge.

<u>Request 6</u>: Regarding Liberty witness Magee's direct testimony on page 56, lines 6-10:

a. Does Liberty Midstates have its own capital structure separate from LUCo?
b. If yes:
   i. Explain why Liberty provided LUCo's capital structure data as part of the Board's minimum filing requirements rather than the capital structure data for Liberty Midstates.
   ii. Provide the information defined by minimum filing requirements at 199 IAC 26.5(5)e(3) and 26.5(5)e(3)(13)-(15) for Liberty Midstates.

<u>Response</u>:

a. Yes
b.
   i. Please see LU MidStates' balance sheet filed in its original rate case filing as "LU Mid-States-8850 2015.xlsx" from which Liberty Midstates' capital structure may be calculated.
   ii. Please see attached <u>199 26.5(5)(e)(3) – LU Midstates Capital Structure.xls</u>, <u>199 26 5(5)(e)(13) Cost of Debt – Midstates.xls</u>, and <u>199 26.5(5)(e)(13) Unamort LT Debt Exp – Midstates.xls</u>.

<u>Request 7</u>: Regarding the gate station project discussed on pages 6 and 7 of the Liberty witness Schwartz's direct testimony:

a. Provide a map showing the location of the two gate stations and the pipeline.
b. Provide additional detail regarding the work that will be performed and the status of the work, e.g. percent complete.
c. Explain why Liberty believes the gate station project will result in reclassification of the line from transmission to distribution.
d. Provide five years of history for the expense associated with the digs and the expense associated with the maintenance of the in-line heater.

e. Was an adjustment made to test year expenses to reflect the reduced expenses associated with this project?

Response:

a. Please see attached IUB No 7 A – Airport PlankRd Map.pdf.

b. The Airport Road and Plank Road gate stations went into service on September 28, 2016. The Company is still completing some minor cosmetic items (e.g. painting, rock, fencing, concrete, clean-up) expected to be completed in the fourth quarter of 2016.

c. The Plank Road gate station dates back to 1971. The 45 year old station had obsolete regulators and relief valves. The age of Plank Road and the fact that three High Consequence Areas ("HCA") are located on the 4" and 8" natural gas transmission pipelines running between Airport Road and the Plank Road gate station drove the decision to develop a solid solution to address both of these issues. By relocating the gate station to Airport Road and reducing the pressure on the 4" and 8" natural gas transmission pipelines to a pressure below 20% Specified Minimum Yield Strength (SMYS) allowed the pipeline to be reclassified from Transmission to Distribution. HCA requirements are used on transmission pipelines, not on distribution pipelines. Moving the gate station to Airport Road allowed for the design and implementation of modern pressure reduction stations and SCADA equipment at both the Airport Road and Plank Road sites.

d. Since the acquisition of the assets by Liberty Utilities from Atmos Energy in August 2012, the Company has incurred approximately $98,404 related to HCA digs and the maintenance of the in-line heater.

e. There were no HCA digs completed or replacement parts purchased for the in-line heater during the test year, therefore there were no adjustments to test year expenses to reflect reduced expenses associated with this project.

Request 8: Why does the pro forma adjustment for the loss of a major customer in JMS-Exhibit 3 use December 2014 data instead of December 2015 data?

Response:

At the time the adjustment for Keokuk Steel Castings was calculated the Company used the most recent 12 months of customer bills. Attached is a revised revenue adjustment for Keokuk Steel Castings based on 2015 volumes and sales.

Request 9: Provide a revised cost-of-service study that fully allocates current costs to the contract customer discussed on page 12, lines 12-15, of Liberty witness Lyons' direct testimony. The revised allocations should be developed consistent with the methodology used in the initial study and be based on test year (calendar year 2015) weather normalized sales.

Response:

Please refer to 'Response to Second Order No. 9 Attachment (CONFIDENTIAL). The modified cost of service study is consistent with the methodology used in the initial study (except as noted below) and is based on the test year (calendar year 2015) weather normalized sales. The revised study has three methodology changes: (a) load factor (located on Tab 'Demand') is assumed to be 100.0 percent since the calculated load factor would be over 100.0 percent due to the average daily use exceeding the design day use[1]; (b) industrial meter costs are allocated to both the Interruptible Industrial class and the contract customer[2]; and (c) required revenues on Tab 'Summary Rate of Return' is prorated to be consistent with the initial study.

It is important to note that the tariff rate for the contract customer was approved by the Board to avoid bypass of the utility system. The Order states, "The Board finds that it is in the best interest of [the utility] and its customers to retain [the contract customer] on [the utility] system, as the tariff will do."[3]

It is further important to recognize, the methodology used to prepare the modified cost of service study IS NOT reflective of the contract customer's cost of service. Such cost of service would require an approach consistent with the methodology used to develop the tariff rate. For example, the contract customer takes service off the Company's transmission system not the distribution system; thus, the cost of service should reflect <u>no allocation</u> of distribution system costs to the contract customer. The modified cost of service study includes an allocation distribution system costs, consistent with the methodology used in the initial study and as such is not a valid cost of service study as to the contract customer. If distribution costs were not allocated to the contract customer, the cost of service study results would be those shown on 'Response to Second Order No. 9 Attachment B' attached hereto.

Request 10: Provide a summary which compares the total costs allocated to each customer class using the initial and revised cost-of-service studies. Both studies should be based on test year (calendar year 2015) weather normalized sales.

Response:

Please refer to 'Response to Second Order No. 9 Attachment (CONFIDENTIAL)', Tab 'COSS Summary'. The initial cost of service study based on calendar year 2015 weather normalized sales is included in 'Response to Second Order No. 10 Attachment (CONFIDENTIAL)'.

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[1] This occurs because the Industrial Interruptible class and contract customer, representing a substantial portion of annual use, are interruptible and thus not included in the design day planning demand.
[2] The initial study allocated industrial meter costs to the Interruptible Industrial class only.
[3] Iowa Department of Commerce Utilities Board, Docket No. TF-03-214, pg. 2.

<u>Request 11</u>: Did the company consider options for filing a simplified case to reduce rate case expense? If yes, what options were considered and what steps were taken to accomplish such a filing?

<u>Response</u>:

Yes. Liberty has taken a number of steps in an effort to simply its rate case to reduce rate case expense. The following steps have been taken to date:

- When Liberty's counsel orally notified Board staff that it intended to file a rate case early in 2016, the Board's staff suggested that prior to filing its rate case, Liberty meet with the Office of Consumer Advocate ("OCA") to discuss the rate case and whether OCA might be amenable to a more streamlined filing and then to discuss settlement of some or all of the rate case issues prior to filing the streamlined case with the Board. Liberty's counsel did so. While OCA was sympathetic to the rate case expense issue, OCA questioned whether a streamlined case might violate Chapter 476 of the Iowa Code. In addition, OCA took the position that while it might be agreeable to Liberty requesting a waiver of certain of the Board's filing requirements, it could not agree to any sort of streamlined case beyond that allowed by a Board waiver and it declined to discuss a possible settlement unless and until the Company filed its full case with the Board. The OCA specifically declined to discuss settlement prior to Liberty's filing of its rate case.

- On March 1, 2016, Liberty filed a Request for Waiver with the Board in an attempt to simplify and eliminate some of the filing requirements for a rate case required by the Board's rules. The Board granted Liberty's request on March 25, 2016.

- Liberty negotiated a reduction of its experts' fees. Specifically, Liberty negotiated the following rates:
    - For its experts on cost of service and cost of capital, Liberty negotiated for the experts to be billed at their 2013 rates in addition to a 15% discount off the already reduced rates.
    - For its depreciation expert, Liberty requested a depreciation study be performed for all of its Midstates territory instead of a study for each individual state, saving significant expense because of the economies of scale.

- After filing its rate case, Liberty received and timely responded to 43 Data Requests from the OCA and 22 Requests for Information from the Board. During this process, Liberty again raised the issue of a possible settlement with the OCA. The OCA declined to discuss settlement until after it files its testimony.

- Finally, Liberty vigorously resisted the suggestion, made by Board's counsel, that the hearing in this case be held in Keokuk, Iowa. Such a move would be highly unusual, even unheard of in rate cases, and would only serve to significantly increase rate case expense. It would require Board and OCA staff, as well as all Company witnesses and the court reporter to travel to Keokuk, in all probability the evening prior to the hearing, resulting in travel, lodging and meal expense; and it would require the rental of a facility, security and equipment and technical assistance for live-streaming of the hearing All of these additional costs are includable in rate case expense that is included in customer rates.

In short, to this point, Liberty has undertaken every step within its power to streamline this case and to reduce rate case expense. However, under Iowa law and the Board's rules, there is only so much Liberty can do.

Further, Liberty's estimate of rate case expense filed with the Board on August 23, 2016 estimated a rate case expense of $389,979 and was based on Liberty's expectation that its rate case would be streamlined. This has not happened. To date, Liberty has spent approximately $360,000 in rate case expense. Liberty will continue to work to minimize rate case expense, but at this point it appears that this case is likely to proceed to a full hearing and briefing before it is decided. Moreover, Liberty's rate case expense will dramatically increase if the hearing is held in Keokuk.

Liberty would be very much in favor of new rules allowing for a simplified rate case process for small utilities. However, until such rules are implemented, the filing requirements are the same for all utilities, and such requirements lead to unavoidable costs, no matter how hard a utility strives to minimize expense.

Dated: November 10, 2016.

Respectfully submitted,

*/s/ Rachel T Rowley*____________________

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